

DRAFT

AGENDA ITEM #5585

WATER/FLC/PTL/RKN/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4599

May 25, 2006

R E S O L U T I O N

**(RES. W-4599), RR LEWIS SMALL WATER COMPANY,
(RRLewis). ORDER AUTHORIZING A GENERAL RATE
INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE
OF \$56,592 OR 220.13% IN TEST YEAR 2005.**

SUMMARY

By Draft Advice Letter, filed on August 15, 2005, RRLewis seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return. The Water Division (Division) accepted this Draft Advice Letter as complete for filing on October 19, 2005.

For Test Year 2005, this resolution grants an increase in gross annual revenues of \$56,592 or 220.13%, estimated to provide a rate of return of 13.25%.

BACKGROUND

RRLewis, a Class D water utility, has requested authority under §VI of General Order 96 and §454 of the Public Utilities Code to increase its water rates by \$65,275 or 300.18% for Test Year 2005. The purpose of the rate increase is to recover increased operating expenses and to earn an adequate rate of return. RRLewis' request shows gross revenues of \$21,745 at present rates increasing to \$87,020 at the proposed rates. RRLewis is requesting a return on rate base of 14.40%.

RRLewis' present rates became effective with its interim general rate increase granted on December 1, 2005, pursuant to Res. No. W-4574 which authorized a rate increase of \$3,600 or 12.18%. This interim rate increase was provided subject to refund upon final resolution of the RRLewis' general rate case request. The last general rate case increase was granted on May 1, 1985 pursuant to Res. No. W-3244, which authorized an increase in revenue of \$5,275 or 89.00% with an 11.00% rate of return on the rate base.

RRLewis currently serves 114 customers (52 flat rate and 62 metered) and is located in Sierra County. RRLewis' water distribution system consists of two gravity-fed water sources for its domestic water requirements and a separate source for its fire protection system. The sources for the domestic water are the Wixson Spring – a shared water source with Sierra County Kentucky Mine, Maple Grove Mutual Water & Tschopps Mutual Water, and the Anderson Spring source.

NOTICE AND PROTEST

A notice of the proposed rate increase was mailed to each customer on October 17, 2005. On November 30, 2005, a public meeting was held within RRLewis' service area at the Community Hall, Sierra City, and Sierra County. The meeting afforded customers the opportunity to be heard and to ask questions about the proposed increase and the approval process. The meeting started at 6:30 P.M.

The Division's representative explained the Commission rate setting procedures. The Department of Health Services (DHS) representative explained the chlorine tank, boil water, and Proposition 50 grant issues and RRLewis' representative explained the need for the rate increase and the need for new facilities. Fifty seven people attended the meeting. While some expressed a concern for the increasing rates, the customers also requested DHS to address the chlorine tank issue. A field visit to review RRLewis' expenses and other quantities and to inspect its facilities was conducted by the Division staff with the RRLewis' staff.

DISCUSSION

The Water Division (Division) made an independent analysis of RRLewis' summary of earnings and issued its staff report in March 2006. Appendix A shows RRLewis and the Division's estimates of the summary of earnings at present, proposed, and recommended rates. Appendix A also shows differences

in RRLewis and the Division's estimates in operating revenues, expenses, and rate base. Informed of the Division's differing views, RRLewis agreed with the Division's findings.

The Division's staff reviewed operating expenses and revenue streams. Staff verified the operating expenses by reviewing supporting documents for accuracy, and included those expenses that were deemed reasonable and prudent. The Division's Audit and Compliance Branch performed a cash-flow analysis on the original application and granted an interim rate increase of 12.82% or \$3,600 in Res. No. W-4574 dated December 1, 2005.

The Division's estimate of RRLewis' revenue requirement using the rate of return on rate base method is \$82,300 resulting in a larger estimated profit than the return of margin method of requested revenue. According to Decision 92-03-093, the Division must recommend the higher profit.

RRLewis' current rate structure consists of three rate schedules: 1A – Metered Service; 2RA – Residential Flat Rate Service; and 5 – Public Fire Hydrant Service. The new rate schedules are included in Appendix B.

At the Division's recommended rates, a monthly bill for an average metered residential customer using an average of 14.03 Ccf (One Ccf is equal to one hundred cubic feet) would increase from \$11.68 to \$39.48 per month, an increase of \$27.80 or 238.05%.

Appendix C is a comparison of customer bills at present and recommended rates. The adopted quantities and tax calculations are shown in Appendix D.

RRLewis requested changing the annual billing to monthly billing and cancellation of Schedule No. 5, Public Fire Hydrant Service. The Division concurs, because the impact for ratepayers to pay monthly is less and also there is no contract between the utility and the local fire district. RRLewis' tariff sheets were reviewed by the Staff and the following sheets need to be updated: Tariff Rule Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules 3, Application for Service; Rules 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; and Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

The Commission, through its Water Action Plan, encourages conservation and metering of all its services under certain economic conditions. RRLewis should

study water conservation and metering, and report back to the Commission within 90 days after the effective date of this resolution.

COMPLIANCE

RRLewis has been filing annual reports as required. RRLewis' tariff sheets were reviewed by staff and following sheets need to be updated: Tariff Rule Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; Forms 2, Customer's Deposit Receipt; and 3, Bill for Service.

COMMENTS

Public Utilities Code Section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (1) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

No comment was received by the Water Division.

FINDINGS

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The interim rate increase was granted on December 1, 2005 pursuant to Resolution W-4574.
3. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
4. The quantities (Appendix D) used are reasonable and should be adopted.
5. RRLewis should file a report with the Water Division to address water conservation and metering.
6. RRLewis should update the following rules in its tariff book: Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee;

Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; and Forms 2, Customer's Deposits Receipt; and 3, Bill for Service.

7. RR Lewis should change the annual flat rate billing to monthly flat rate billing, and cancel Schedule No. 5, Public Fire Hydrant Service.
8. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to RRLewis Small Water Company to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedules: Nos. 1 – Metered Service, 2RA, for Residential Flat Rate Service. Authority is also granted to change the annual flat rate billing to monthly flat rate billing and cancel Schedule No. 5, Public Fire Hydrant Service. Its filing shall comply with General Order 96-A. The effective date of the revised rate schedule shall be five days after the date of its filing.
2. RRLewis Small Water Company is authorized to increase its annual revenues by \$56,592 or 220.13%. This would increase estimated annual revenue from \$25,708 to \$82,300.
3. Within 60 days after the effective date of this resolution, RRLewis Small Water Company shall file an advice letter updating its tariff sheets: Tariff Rule Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee; Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms: 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; and Form 2, Customer's Deposit Receipt, and 3, Bill for Service. The advice letter filing shall comply with General Order 96-A.
4. Within 90 days after the effective date of this resolution, RRLewis Small Water Company shall file a report with the Water Division to address water conservation and metering.

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5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 25, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

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May 25, 2006

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APPENDIX A
RR LEWIS SMALL WATER COMPANY
SUMMARY OF EARNINGS
 Test Year 2005

<u>Item</u>	RRLSWC		DIVISION		
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>ADOPTED</u>
	RATES	RATES	RATES	RATES	RATES
<u>Operating Revenue</u>					
Flat Rates	\$16,122	\$76,103	\$8,756	\$44,550	\$44,550
Metered Water	\$1,423	\$6,717	\$8,746	\$29,543	\$29,543
Other Water	\$4,200	\$4,200	\$8,206	\$8,206	\$8,206
Total Revenue	\$21,745	\$87,020	\$25,708	\$82,300	\$82,300
<u>Operating Expenses</u>					
Purchased Power	\$1,700	\$1,700	\$1,262	\$1,262	\$1,262
Materials	\$3,000	\$3,000	\$2,554	\$2,554	\$2,554
Contract Work	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500
Transportation	\$4,100	\$4,100	\$4,100	\$4,100	\$4,100
Management Salaries	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
Office Salaries	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
Office Suppl. & Exp.	\$1,930	\$1,930	\$1,383	\$1,383	\$1,383
Professional Services	\$12,000	\$12,000	\$5,861	\$5,861	\$5,861
Insurance	\$6,500	\$6,500	\$6,267	\$6,267	\$6,267
Regulatory Comm. Exp.	\$243	\$243	\$243	\$243	\$243
General Expenses	\$1,306	\$1,306	\$1,306	\$1,306	\$1,306
Subtotal	\$59,079	\$59,079	\$51,276	\$51,276	\$51,276
Depreciation Expense	\$6,000	\$6,000	\$7,764	\$7,764	\$7,764
Other Taxes	\$4,000	\$4,000	\$3,086	\$3,086	\$3,086
State Income Tax	\$0	\$0	\$0	\$1,456	\$1,456
Fed. Income Tax	\$0	\$0	\$0	\$2,252	\$2,252
Total Deductions	\$69,079	\$69,079	\$62,126	\$65,834	\$65,834
Net Revenue	-\$47,334	\$17,941	-\$36,418	\$16,467	\$16,467
Average Plant	\$312,007	\$312,007	\$312,007	\$312,007	\$312,007
Net Plant	\$134,309	\$125,613	\$134,309	\$134,309	\$134,309
Working Cash	\$626	\$626	\$626	\$626	\$626
Materials & Supplies	\$1,832	\$4,250	\$4,250	\$4,250	\$4,250
Contributions in aid of Const.	\$14,907	\$14,907	\$14,907	\$14,907	\$14,907
Rate Base	\$124,604	\$124,604	\$139,185	\$124,277	\$124,277
Rate of Return	-37.99%	14.40%	-26.17%	13.250%	13.250%

APPENDIX B

R. R. Lewis Small Water Company

Schedule No. 1

Test Year 2005

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area northeast of Sierra City, north of the North Yuba River, adjacent to Highway 49 in Sierra County. .

RATES

Quantity Rates:

All usage, per 100 cu.ft.....\$ 1.35 (I)

Service Charge:

For 5/8 x 3/4-inch meter.....\$ 21.87 (I)

For 1-inch meter.....\$ 36.23 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$349.34 payable in quarterly installments of \$87.34. This charge offsets the expenses resulting from the Environmental Protection Agency's adopted National Primary Drinking Water Regulations for water testing and maintains standards under the Surface Water Treatment Rule.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B
Sheet 2

Schedule No. 2RA
Test Year 2005

RESIDENTIAL FLAT RATE SERVICE (T)

APPLICABILITY

Applicable to all flat rate residential water service furnished on a monthly basis. (T)

TERRITORY

The area northeast of Sierra City, north of the North Yuba River, adjacent to Highway 49 in Sierra County.

RATES

	Per Service Connection	
	<u>Per Month</u>	
For a single-family residential unit, including premises.....	\$73.82	(I)
For each additional single-family residential unit on the same premises served from the same service connection.....	\$73.82	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than 1-inch in diameter.
2. If the utility so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.
3. As authorized by the California Public Utilities Commission, all bills are subject to a one-time surcharge of \$349.34 payable in quarterly installments of \$87.34. This charge offsets the expenses resulting from the Environmental Protection Agency's adopted National Primary Drinking Water Regulations for water testing and maintains standards under the Surface Water Treatment Rule.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF. (L)
(D)

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APPENDIX C

RR Lewis Small Water Company

Comparison of Rates

Test Year 2005

Comparison of a monthly typical bill for residential metered customers with a 5/8x3/4 inch meter is shown below at current rate and recommended rates for test year 2005

	Usage 100 Cu.Ft	Present Rates	Recom. Rates	Amount Increase	Percent Increase
	0.00	\$7.05	\$21.15	\$14.10	200.00%
	10.00	\$10.35	\$34.22	\$23.87	230.61%
Avg.	14.03	\$11.68	\$39.48	\$27.80	238.05%
	20.00	\$13.65	\$47.29	\$33.64	246.42%
	30.00	\$16.95	\$60.35	\$43.40	256.07%

APPENDIX – DADOPTED QUANTITIES
RR LEWIS WATER COMPANY – SALINAS DISTRICT
WATER DIVISION**ADOPTED QUANTITIES**

Expenses Test Year 2005

1. Purchased Power

Schedule – A1

kWh's	9,234
Cost	\$1,262
\$/kWh	\$0.1367/kWh

Purchased Water	None
Franchise Tax Rate	3.75%
Service Connections	110
Water Sales (Ccf)	1,116,788

Tax Calculations:

Net Revenue	\$16,467
State Tax (8.84% or \$800 Minimum)	\$ 1,446
Federal Taxable Income	\$14,791
Federal Tax	\$ 2,252